



## TENNESSEE REGISTRY OF ELECTION FINANCE

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### **Contribution Audit of John Murphy Fourth Quarter 2006**



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# STATE OF TENNESSEE



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August 1, 2007

Members of the Registry of Election Finance  
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Ladies and Gentlemen,

Transmitted herewith are the agreed upon procedures for the un-itemized contribution audit of John Murphy's 2006 Fourth Quarter Financial Disclosure Statement for his 2006 election campaign for the House of Representatives. This audit was conducted pursuant to the requirements of Section 2-10, *Tennessee Code Annotated*, the Comprehensive Governmental Ethics Reform Act of 2006.

The procedures were developed to aid the Registry of Election Finance in its responsibilities to monitor and enforce Tennessee's Campaign Financial Disclosure Law and Campaign Contribution Limits Law. The candidate is responsible for complying with campaign finance laws and the accuracy of campaign financial disclosures. The sufficiency of these procedures is solely the responsibility of the Registry's internal audit group. Consequently, we make no representation regarding the sufficiency of the agreed upon procedures described in the report for any other purpose than aiding the Registry.

This report is intended for the information and use of the Members of the Tennessee Registry of Election Finance as outlined; and is not intended to be and should not be used by anyone other than the Registry without understanding the objectives, purposes, and underlying assumptions. This report, however, is a matter of public record.

Sincerely,

Jay Moeck, CPA, CFE  
Audit Manager

STATE OF TENNESSEE  
REGISTRY OF ELECTION FINANCE

## **Audit Highlights**

John Murphy  
2006 Fourth Quarter Contribution Audit

### **AUDIT OBJECTIVES**

The objectives of the audit were to determine John Murphy's compliance with certain provisions of campaign finance disclosure laws and regulations, compliance with certain provisions of campaign contribution limits laws and regulations, accuracy and completeness of the un-itemized contribution disclosures on his 2006 Fourth Quarter Campaign Financial Disclosure Statement, and to recommend appropriate actions to correct any deficiencies.

### **FINDINGS**

**1. John Murphy's campaign records indicated that he understated his total campaign contributions and overstated un-itemized contributions prior to audit notification.** Prior to audit notification, Mr. Murphy reported \$6,980.73 in total contributions on his 2006 fourth quarter disclosure statement. He reported all of the contributions in the aggregate amount as un-itemized contributions. Subsequent to audit notification, Mr. Murphy reported total contributions of \$10,090.73 (\$3,800 in itemized contributions, \$715.73 in un-itemized contributions, and a personal loan of \$5,575). Therefore, Mr. Murphy's original disclosure statement understated total contributions by \$3,110 and loans by \$5,575. In addition, he overstated un-itemized contributions by \$6,265. As part of the amendment, Mr. Murphy also added new loan payments of \$2,048.99 to disbursements.

**2. John Murphy did not properly maintain campaign records to verify compliance with campaign finance statutes.** The candidate's contribution records only indicated deposits in total without specifying the contributors' names or contribution amounts. Therefore, compliance with campaign finance statutes could not be determined for all of un-itemized contributions reported on Mr. Murphy's amended for quarter report.

**3. John Murphy did not follow Registry rules for bookkeeping.** Mr. Murphy did not follow Registry rules for bookkeeping. Although not required by statute, the Registry has developed guidance for candidates for maintaining the records of campaign activities. Mr. Murphy's adherence with the bookkeeping rules may have averted the other findings reported.

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## INTRODUCTION

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### **AUDIT AUTHORITY**

In February 2006, the Tennessee Legislators and Governor Phil Bredesen enacted the “Comprehensive Governmental Ethics Reform Act of 2006,” which amended Tennessee’s campaign finance disclosure laws and duties of the Registry of Election Finance. The legislation established the audits of campaign disclosure reports. *Tennessee Code Annotated* (T.C.A.) §§ 2-10-206 and 2-10-212 authorize the Registry of Election Finance (Registry) to conduct audits of campaign finance disclosure statements filed with the Registry. The audit was initiated based on T.C.A. § 2-10-212(i), which requires the Registry to audit any candidate that files a disclosure statement with more than 30% of the candidate’s contributions reported as un-itemized contributions and the un-itemized contributions were greater than \$5,000.

### **AUDIT PURPOSE**

The Registry’s contribution audits were developed to assist and encourage candidate compliance with campaign disclosure laws. The audit process assists the Registry in providing timely and accurate campaign information to government officials and the general public. The Registry’s audits provide a tool to the Registry to evaluate the effectiveness of the campaign financial disclosure process. In addition, the audits assist the Registry in the enforcement of campaign finance limit laws and campaign finance disclosure laws. Finally, the audit reports are intended to assist the candidate and the State of Tennessee in promoting governmental accountability and integrity.

### **AUDIT SCOPE**

Tennessee’s Campaign Financial Disclosure Law requires candidates to make biannual financial disclosures as of the date of the first contribution or first expenditure, whichever occurs earlier. The biannual report periods are from January 16 to June 30 and July 1 to January 15 of each year. During an election year, the disclosures expand to quarterly reports, pre-primary reports, and pre-general reports. This audit relates to disclosures made subsequent to the passage and approval of the Comprehensive Governmental Ethics Reform Act of 2006. The act was approved on February 15, 2006. In addition, the audit relates to only disclosure reports that meet the requirements listed in T.C.A. § 2-10-212(i). Therefore, the audit reviewed only John Murphy’s disclosures on his 2006 fourth quarter report.

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## CAMPAIGN OVERVIEW

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### CAMPAIGN ORGANIZATION

John Murphy was a candidate in the November 7, 2006 general election for the House of Representatives for district 63. Mr. Murphy filed an Appointment of Political Treasurer Statement with the Registry on April 20, 2006 appointing John Arnett as political treasurer.

The candidate's first financial disclosure for the 2006 campaign was the 2006 second quarter report filed on July 10, 2006. As of June 30, 2007, the candidate's current financial disclosure report was the 2006 fourth quarter, which he originally filed on February 7, 2007. The candidate amended the 2006 fourth quarter report on February 28, 2007, making his current campaign balances disclosed as \$6,609.23 in cash on hand, \$1,000.00 in outstanding obligations, and \$3,526.01 in outstanding loans. The candidate has not completed his 2006 election campaign reporting requirements. The candidate's next report will be due July 16, 2007 and will cover the period of January 16, 2007 to June 30, 2007.

### OVERVIEW OF FINANCIAL ACTIVITIES

The following financial amounts are a summary of the financial disclosures made by the candidate. The summarized amounts are from the following disclosure reports: 2006 second quarter, 2006 pre-primary, 2006 third quarter, 2006 pre-general, and 2006 fourth quarter reports after amendments. As noted in the audit scope, we only audited the un-itemized contributions from disclosures for the 2006 fourth quarter. The amounts displayed are for informational purposes only.

<u>Summary of Financial Activity</u>		
<u>(Un-audited Amounts)</u>		
Cash on hand at April 1, 2006		\$0.00
Receipts		
Itemized	\$28,290.00	
Un-itemized	4,624.52	
Interest	0.00	
Loans receipted	5,575.00	
Total receipts		<u>\$38,489.52</u>
Disbursements		
Itemized	\$29,741.30	
Un-itemized	90.00	
Loans principal payments	2,048.99	
Total disbursements		<u>\$31,880.29</u>
Cash on hand at January 15, 2007		<u>\$6,609.23</u>
Loans outstanding at January 15, 2007		\$3,526.01
Obligations at January 15, 2007		\$1,000.00
Total in-kind contributions received		\$5,473.06

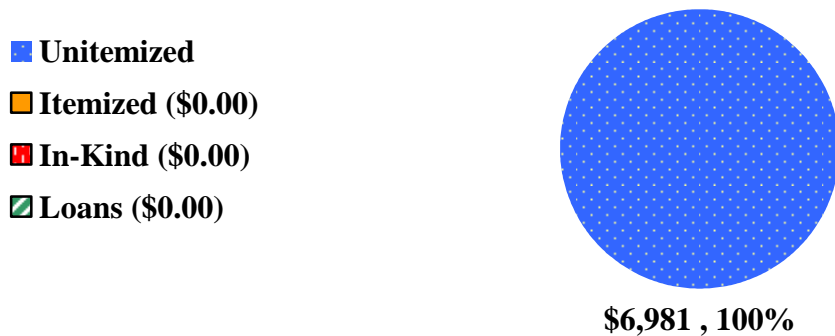
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## CHARTS

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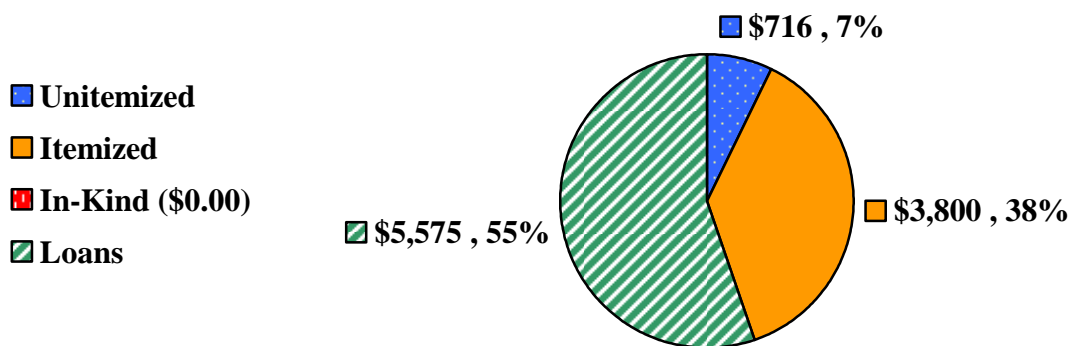
### **2006 FOURTH QUARTER CONTRIBUTIONS (Prior to Audit Notification)**

The following chart shows the contributions reported by the candidate in the 2006 fourth quarter financial disclosure report as of February 7, 2007. We audited this report since Mr. Murphy submitted the report prior to the audit notification letter, which we sent on February 9, 2007 and he received as certified on February 10, 2007.



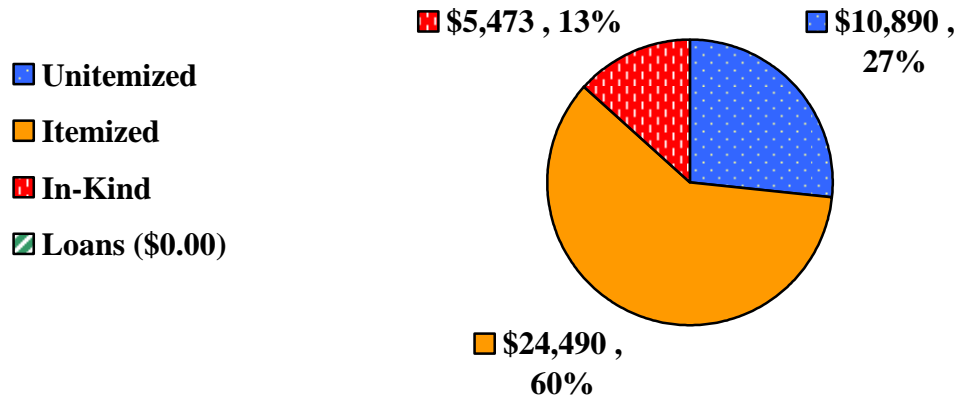
### **2006 FOURTH QUARTER CONTRIBUTIONS (Subsequent to Audit Notification)**

The following chart shows the contributions reported by the candidate for the 2006 fourth quarter financial disclosure report as of February 28, 2007. The candidate prepared this report subsequent to audit notification.



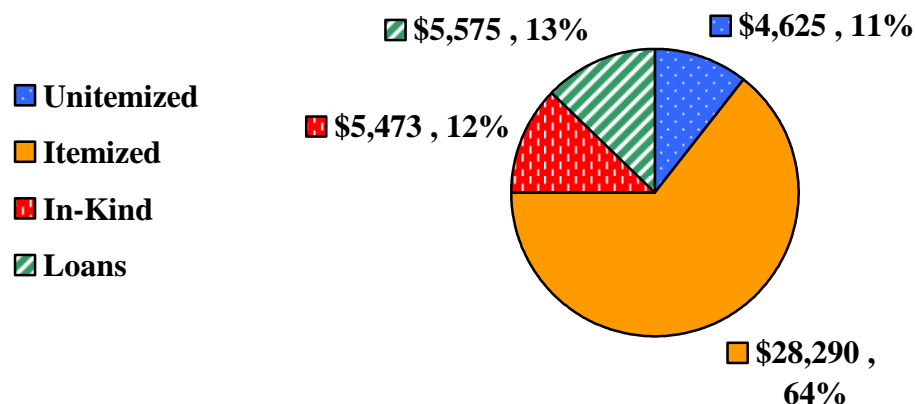
### **2006 ELECTION CAMPAIGN CONTRIBUTIONS (Prior to Audit Notification)**

The following chart shows the contributions reported by the candidate for the 2006 election campaign as of February 7, 2007. We audited the 2006 fourth quarter report as of February 7, 2007 since Mr. Murphy submitted the report prior to the audit notification letter, which we sent on February 9, 2007 and he received as certified on February 10, 2007.



### **2006 ELECTION CAMPAIGN CONTRIBUTIONS (Subsequent to Audit Notification)**

The following chart shows the final contributions reported by the candidate for the 2006 election campaign.





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## OBJECTIVES, METHODOLOGIES, CONCLUSIONS

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### **UN-ITEMIZED CONTRIBUTIONS AND RECEIPTS**

#### ***Audit Objectives:***

The objectives of our audit of un-itemized contributions were to determine whether:

- campaign contribution from individuals and Political Action Committees (PAC) were within limits;
- all contributions were from non-prohibited sources;
- all contributions received were reported, reported in the proper period, reported in compliance with T.C.A. § 2-10-105 and 2-10-107, and reported in compliance with the Registry's rules; and
- all contributions were supported by bank statements and deposit slips.

#### ***Audit Methodology:***

The Registry obtained Mr. Murphy's 2006 Fourth Quarter Campaign Financial Disclosure Statement submitted on February 7, 2007 to verify that the un-itemized contributions were greater than \$5,000 and 30% of the total contributions reported. We requested Mr. Murphy to provide supporting documentation for the un-itemized contributions of \$6,980.73 that he reported on his 2006 fourth quarter report as of February 7, 2007. The candidate provided auditors with campaign records for the fourth quarter, which included bank statements, on-line screen printouts of the campaign account activities, and deposit slips. The following steps were performed on Mr. Murphy's campaign documentation:

- The documentation was reviewed to determine if the candidate's un-itemized contributions received from October 29, 2006 thru January 15, 2007 totaled \$6,980.73.
- A listing of un-itemized contributions was prepared and compared to the candidate's bank statements to determine if the candidate deposited all funds into a campaign bank account and properly recorded the funds.
- A list of un-itemized contributions by contributor was prepared and compared to the candidate's itemized contributions reported during the election to determine if campaign contributions from individuals and PACs complied with campaign contribution limits, T.C.A. § 2-10-301, et seq.

- An un-itemized contributions list was reviewed to determine if all contributions were reported, all receipts received were reported, all contributions were reported in the proper period, all contributions were reported in compliance with T.C.A. §§ 2-10-105 and 2-10-107, and all contributions were reported in compliance with the Registry's rules.

***Audit Conclusion:***

Mr. Murphy's 2006 Fourth Quarter Campaign Financial Disclosure Statement filed on February 7, 2007 had un-itemized contributions greater than \$5,000 and 30% of the total contributions and thus subject to audit. Subsequent to audit notification, Mr. Murphy electronically filed an amended fourth quarter report with the Registry on February 28, 2007. The amended report indicated the candidate received un-itemized contributions of \$715.73. Mr. Murphy's campaign records appear to support the \$715.73 contribution amount. We prepared a finding due to Mr. Murphy overstating his un-itemized contributions on his 2006 fourth quarter report prior to audit notification. The finding also discusses that Mr. Murphy understated loans and understated itemized contributions on the original report (Finding 1). In addition, we reported a finding for the remaining un-itemized contributions of \$715.73 since Mr. Murphy's campaign records were not sufficient to document compliance with campaign finance statutes (Finding 2). Finally, Mr. Murphy did not follow the Registry rules for bookkeeping, which had he followed the rules, he may have mitigated or averted the other findings reported (Finding 3).

**FINDINGS**

**1. Mr. Murphy's campaign records indicated that he understated his total campaign contributions and overstated un-itemized contributions prior to audit notification.**

Mr. John Murphy filed his original 2006 Fourth Quarter Campaign Financial Disclosure Statement on February 7, 2007 reporting total contributions of \$6,980.73 (all un-itemized contributions). On February 9, 2007, the Registry notified Mr. Murphy that the un-itemized contributions on his fourth quarter disclosure statement were subject to audit. Subsequent to receiving the audit notification, Mr. Murphy filed an amended 2006 fourth quarter disclosure statement on February 28, 2007 disclosing total contributions of \$10,090.73 (\$3,800.00 in itemized contributions, \$715.73 in un-itemized contributions, and a personal loan of \$5,575.00). Therefore, Mr. Murphy's original disclosure statement understated total contributions by \$3,110.00 and loans by \$5,575.00. In addition, the candidate overstated un-itemized contributions by \$6,265.00.

Campaign finance disclosure laws require candidates running for state office to file quarterly disclosure statements of all contributions received. The candidate failed to report \$3,110.00 in contributions that he received on the original fourth quarter report, which was a violation of the law, as outlined in T.C.A. § 2-10-105. The candidate's failure to report detailed information including names of contributors, addresses, occupations, and employers for the \$3,800.00 in itemized contributions was a violation of the law, as outlined in T.C.A. § 2-10-107. The candidate's failure to report detailed information for the \$5,575.00 in loans was also a violation of T.C.A. § 2-10-107.

## **2. Mr. Murphy did not properly maintain campaign records to verify compliance with campaign finance statutes.**

Mr. Murphy did not maintain sufficient un-itemized contribution campaign records to verify compliance with all campaign finance statutes. Mr. Murphy's contribution records only indicated deposits in total without specifying the contributors' names or contribution amounts. As a result, We could not determine the Mr. Murphy's compliance with the following campaign finance statutes for all \$715.73 in un-itemized contributions reported during the fourth quarter:

- T.C.A. § 2-10-107(a)(2)(A)(i) requires contributions of more than \$100 from one source received during a reporting period to be itemized. The itemized information for each contributor must include name, address, occupation, employer, date, and amount of contribution.
- T.C.A. § 2-10-302 establishes limits on contributions to candidates from a person or multicandidate committee (PAC).
- T.C.A. § 2-10-311(a) limits cash contributions to \$50 per election for each contributor.

## **3. Mr. Murphy did not follow Registry rules for bookkeeping.**

Mr. Murphy did not follow Registry rules for bookkeeping. Although not required by statute, the Registry has developed guidance for candidates for maintaining the records of campaign activities. This guidance is not the sole method for maintaining records and does not include all variations of campaign activities; however, if the Mr. Murphy had followed the guidance, he may have averted the findings noted above. Mr. Murphy did not implement the following Registry rules, which resulted in inadequate campaign records:

- Registry Rule 0530-1-3-.05 and 0530-1-1-.02(6) states that a candidate through his/her record-keeping system must be able to determine the aggregate amount of contributions received per election from each contributor. The Registry recommends that candidates and their committees maintain photocopies of all contribution checks received or in the alternative, a journal or listing of contributions.
- Registry Rule 0530-1-1-.02(8) states that a candidate should perform bank reconciliations that reconcile the bank account and the campaign records to the financial disclosure statements.

## **RECOMMENDATION TO CANDIDATE**

Mr. Murphy should be aware that the purpose of the disclosure statements is to give the citizens of the State of Tennessee accurate and timely campaign information. Mr. Murphy should complete and review his disclosure statements before filing to make sure he is providing accurate information by the filing deadlines. Mr. Murphy should ensure the campaign adopts and maintains a record-keeping system to distinguish between contributions made for a primary election and those made for a general election. In addition, this record-keeping system should indicate the amount of contributions received per election from each contributor by reporting period and in the aggregate for the campaign. Mr. Murphy should consider the Registry's recommendation that candidates and their committees maintain copies of all contributions received (copies of campaign contribution checks) or in the alternative, a journal or listing of contributions. Mr. Murphy should ensure all contributions are deposited in the campaign account within 10 days of receipt. To verify that all campaign finance activities are properly recorded and reported, Mr. Murphy should ensure the campaign bank account reconciles to the campaign disclosure statements.

## **RECOMMENDATION TO REGISTRY**

We recommend the Members of the Registry consider the findings for possible further action. We recommend the Registry approve the audit performed as being sufficient and complete. Finally, we recommend the Registry post the audit report to the Registry's web site, notwithstanding whether a significant penalty is assessed, as outline in T.C.A. § 2-10-212(f). The report and related findings will assist current and future candidates in understanding the audit process, the purposes of Registry rules, and types of procedures needed to comply with campaign finance laws.

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## **RESOLUTIONS**

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### **REGISTRY OF ELECTION FINANCE ACTIONS**

The Members of the Registry of Election Finance reviewed the 2006 contribution audit of John Murphy during the August 8, 2007 regular monthly meeting. The report contained three findings with recommendations for corrective actions. The Registry voted to approve the audit report and to issue a show cause notice for inaccurately reporting his campaign contributions. Subsequent actions by the Registry related to the show cause notice will appear in the subsequent board minutes.